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ABSTRACT

An Ontario university non-salary price index is presented that attempts to measure the impact of inflation on non-salary expenditure. Using 1970-71 as the base year (in which the index equals 100), the changes in prices of non-salary expenditures for 1976-77 are shown. The non-salary expenditures covered include books and periodicals, furniture and equipment, operational supplies and expenses including part of externally contracted services, utilities, and renovations and alterations. It was found that for 1976-77, the Ontario university index was 13.7 percent higher than the Canadian Consumer Price Index and by the end of 1977-78 the Ontario university index is expected to be 14.5 percent higher than the Consumer Price Index. (SPG)

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ONTARIO UNIVERSITY NON-SALARY PRICE INDEX

Prepared by the

Non-Salary Price Index Task Force

of the

Committee of Finance Officers - Universities of Ontario

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130 St. George Street
Suite 8039
Toronto, Ontario M5S 2T4

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PREFACE

The 1977 Brief to OCUA, Foundation for an Uncertain Future: The Operating Base, prepared by the COU Committee on Operating Grants, expressed the need for an accurate measure of the rate of inflation as it affects universities. In May, 1977, COU undertook to develop, in cooperation with the Committee of Finance Officers - Universities of Ontario (COFO-UO), an Ontario university non-salary price index. The purpose was to provide "a more sensitive tool to assist in measuring the likely impact of inflation on non-salary expenditure, and a more accurate measure of the extent of inflationary erosion between any two years".

The task of developing a non-salary price index was originally conceived as a two stage operation:

1) To develop a price index within which the impact of inflation on components would be measured by existing Statistics Canada indices; and

2) To verify the appropriateness of existing indices and develop new indices as necessary.

This report falls somewhere between these two stages. In certain areas, e.g. library acquistions, Canadian indices were unavailable and alternative measures of inflation had to be found. In other areas, e.g. energy, it was readily apparent that existing indices

grossly understated the rate of price increase. We are aware of other instances in which the university non-salary price index now being presented is understating the rate of inflation. A commitment is therefore made to further refine the index for presentation next year.

The task force responsible for this report consisted of: M. E. Dedrick, Director of Finance, University of Toronto (Chairman); J. K. Kettles, Director of Finance, Carleton University; D. R. Dyson, Assistant Director of Administrative Services, University of Guelph; J. A. Buttrick, Professor of Economics, York University; and E. K. DesRosiers, Director of Research, Council of Ontario Universities. COU staff support was provided by Mrs. Katherine Armstrong.

1.0 METHODOLOGY

A price index measures the changes in prices of a fixed group of goods and services of constant quality. In the construction of a price index, two reference periods are required. One is the base period or year in which the index equals 100, and from which the index measures the percentage change in prices. The other is the period from which data are taken to determine the weighting pattern.

The basic formula used in the construction of the index is as follows:

$$\Sigma I_n = \frac{\Sigma\ p_n\ q_w}{\Sigma\ p_o\ q_w} \times 100$$

Where p_o represents prices of items in the index for the time base period, q_w stands for quantities of items in the index for the weight base period and p_n represents the prices in any other given time period.

This methodology has been applied to the development of a university price index using 1970-71 for p_o and 1976-77 for q_w. The university price index is an aggregative index with fixed weights for quantities of goods and services purchased by Ontario universities from operating funds (excluding wages and salaries). The quantity base period represents the relative importance of the various items in the index for the 1976-77 fiscal year (i.e. ending April 30, 1977).

In choosing a weight base, it is important that it relate to what is considered to be a pattern of expenditure likely to be repeated in future years. In the committee's judgement, 1976-77 meets this criterion. Moreover, detailed information was easier to obtain from the universities for 1976-77 than for earlier years.

Index numbers are computed on the time base of fiscal year 1970-71. This means that current prices are expressed as a percentage of prices for 1970-71, providing an historical perspective to the index. Also, in selecting the time base, it is preferable that it conform insofar as possible with the time base for other statistical series. Our time base of 1970-71 is fairly close to the base of calendar year 1971 widely used by Statistics Canada.

2.0 COMPONENTS OF THE INDEX

The main components of the university index are derived from the objects of expense described in the annual publication by COFO-UO, Total Revenue and Expenses for Provincially Assisted Universities of Ontario. Table 1 shows the distribution of total operating expenses for the Ontario university system based on the summary in the 1976-77 COFO-UO report.

TABLE 1

Actual Operating Expenses by Object of Expense
for the Fiscal Year Ended April 30, 1977, all Universities

Object of Expense	$ (000s)	%	
Salaries & Wages			
(i) Academic Ranks	311175	38.6	
(ii) Other Instruction and Research	37032	4.6	
(iii) Other Salaries and Wages	231675	28.8	
Total Salaries and Wages	579882	72.0	
Fringe Benefits	65071	8.1	
Total Salaries and Benefits		644953	80.1
Books and Periodicals		15986	2.0
Furniture and Equipment			
(A) Purchase		15231	1.9
(B) Rental		8414	1.1
Operational Supplies and Expenses		50103	6.2
Costs of Goods Sold		0	0.0
Utilities		29149	3.6
Taxes		8171	1.0
Renovations and Alterations		7598	0.9
Externally Contracted Services		9376	1.2
Scholarships, Bursaries, Etc.		5227	0.7
Principal and Interest Repayments		358	0.0
Land and Site Services		47	0.0
Buildings		162	0.0
Miscellaneous		18757	2.3
Internal Cost Allocations		(8326)	(1.0)
Total		805206	100.0

Table 2 focusses specifically on the non-salary expenditure in 1976-77 which will be included in the Ontario University Non-Salary Price Index. Since wages make up a major portion of renovations and alterations, and externally contracted services, these items have been reduced to exclude the estimated wage component. Other items excluded are taxes, scholarships, and principal and interest repayments. As a result, the main components included in the university index are: books and periodicals, furniture and equipment, operational supplies and expenses including part of externally contracted services, utilities, renovations and alterations, and miscellaneous. Definitions for each component can be found in the COFO-UO annual report on total revenue and expenses. Expenditure cited in Table 2 includes 89% of total non-salary expenditure as reported by COFO-UO.

TABLE 2

Actual Operating Expenses for Non-Salary Object of Expense for the Fiscal Year ended April 30, 1977, all Universities

Object of Expense	$ (000s)	%
Books and Periodicals	15986	11
Furniture & Equipment (Purchase & Rental)	23735	17
Operational Supplies & Expenses (+ 25% externally contracted services)	52447	37
Utilities	29149	20
Renovations & Alterations (40%)	3039	2
Miscellaneous (+ land & site services & buildings)	18966	13
Total	143232	100

Table 3 shows the distribution of adjusted non-salary expenses by Ontario universities since 1970-71.

TABLE 3

Percentage Distribution of Non-Salary Operating Expenses by Object of Expense, 1970-71 to 1976-77

	70-71	71-72	72-73	73-74	74-75	75-76	76-77
Books & Periodicals	13	13	13	12	12	11	11
Furniture & Equipment	21	22	19	19	18	17	17
Operational Supplies and Expenses	33	34	34	33	38	39	37
Utilities	14	15	17	17	17	19	20
Renovations and Alterations	3	2	2	2	1	2	2
Miscellaneous	16	14	15	17	14	12	13
Total	100	100	100	100	100	100	100

In order to produce a more accurate price index, each of the major non-salary components cited in the above tables was further broken down, using 1976-77 data.

2.1 Books and Periodicals

A survey of the Ontario university libraries was carried out to establish the distribution of acquisition expenditures among books (by country of purchase), periodicals, binding and other. The results were as follows:

	%
Books	45
Periodicals	38
Binding	7
Other	10
	100

Looking only at books and periodicals, the distribution becomes books 54% and periodicals 46%. Fifty-one percent of the books are American compared to 12% Canadian, 13% British and 24% other.

2.2 Furniture and Equipment

The COFO-UO report gives a breakdown of expenses by functional area. This was used as a proxy for more detailed information on the distribution of expenditure between furniture and equipment. Purchase and rental were combined for this analysis. The following pattern emerges:

Functional Area	$ (000s)	%
Instruction & Research	10913	46
Computing	8830	38
Library	1450	6
Physical Plant	1171	5
Administration	763	3
Student Services	267	1
Other	251	1
Total	23645	100

2.3 Operational Supplies and Expenses

This component is the largest non-salary category. Adding 25% of the externally contracted services (and therefore excluding 75% for salaries), it accounts for 37% of non-salary expenses. Most of the universities could not readily

provide a detailed breakdown of operational supplies. At some universities there is only one budget code for these expenditures. However, one university (fortunately having a percentage for operational supplies and expenses closest to the average for the system) was able to provide such data. This material was analyzed and regrouped to match available price indices. The distribution was circulated to the universities for comment and to test the representativeness of the spending pattern. In light of the responses, the distribution was re-examined and the following pattern was established.

	%
Stationary & Paper Products (including paper, writing pads, computer cards and paper, and caretaker supplies)	23
Printing & Duplicating (materials only, salaries excluded)	19
Tools & Apparatus (including hardware, small tools, and laboratory instruments)	19
Chemicals (including paint, laboratory chemicals, cleaning supplies, drugs and pharmaceuticals)	12
Postage	5
Long Distance Telephone	4
Other	18
Total	100

2.4 Utilities

The Ontario Association of Physical Plant and Planning Administrators (OAPPPA) collects data on university expenditure on utilities. In 1976-77 utility expenditure

by all Ontario universities was distributed as follows:

	%
Electricity	44
Natural Gas	26
Telephone Equipment Rental	12
Fuel Oil	11
Water	7
Total	100

2.5 Renovations and Alterations

Since wages are included in renovations and alterations (assumed to be 60%) the category was reduced by this amount. Such a small component (2% of the total index) does not require further breakdown.

2.6 Miscellaneous

The miscellaneous category accounts for 13% of non-salary expenditure. Part of the submission to the COFO-UO report includes a supplementary form which gives a breakdown of miscellaneous expenditure. The returns of this form were analyzed and the system total calculated, giving the following distribution:

	%
Travel, Moving & Receptions	42
Insurance	9
Space Rental (temporary accommodation)	7
Other (including buildings & land and site services)	42
Total	100

The universities provided an estimate of the first item - travel, moving and receptions - as follows:

	%
Transportation	51
Food	26
Shelter	23
Total	100

2.7 Price Index Weights

Based on the above analysis, a set of weights was established for the various components of the non-salary price index. These are presented in Table 4.

3.0 SOURCES OF PRICE DATA

Because of the number, diversity and speciality of the items purchased by universities, any grouping of similar commodities for pricing purposes will be necessarily crude, involving approximate weightings and representative pricing. The following section discusses the availability of price indices for each component of the index. It should

TABLE 4

Non-Salary Price Index Weighting Pattern

Item Content	Index Weight	%
Books & Periodicals		11
Books	6	
Periodicals	5	
Furniture & Equipment		17
Instructions & Research	8	
Computing	6	
Administration	3	
Operational Supplies & Expenses		37
Stationary & Paper Products	10	
Printing & Duplicating (materials)	9	
Tools & Apparatus	9	
Chemicals	5	
Postage	2	
Long Distance Telephone	2	
Utilities		20
Electricity	9	
Natural Gas & Fuel Oil	8	
Telephone Equipment	3	
Renovations & Alterations	2	2
Miscellaneous		13
Travel, Moving & Receptions	5	
	2	
	2	
Insurance	2	
Space Rental	2	
Total		100

be noted that most of the broad expenditure components include an item called 'other'. Since no appropriate price index exists, the 'other' category is allocated over the remaining items in that expenditure component. We have, however, found price indices for approximately 80% of non-salary expenditure items. These indices are presented in Table 5. Annual percentage increases in each component are presented in Table 6.

3.1 Books and Periodicals

Only limited price indices exist for library purchases. There is no index for Canadian books or periodicals. The Canadian Consumer Price Index does have a category called "reading" but this is made up of newspapers and magazines. Our survey of Ontario university libraries found that the majority of books purchased by the libraries were American. A widely used index for U.S. books is available; The Bowker Annual of Library and Book Trade Information contains a price index based on average prices of U.S. hard-cover trade-technical books.

The main index for periodicals is also American. The Bowker Annual price indices are based on average prices of U.S. periodicals. The data for both books and periodicals have been converted to Canadian figures by adjusting for the Canadian-U.S. exchange rate.

TABLE 5

Component Price Indices in the
Ontario University Non-Salary Price Index
(based on fiscal year 1970-71 = 100)

Component	70-71	71-72	72-73	73-74	74-75	75-76	76-77
Books	100.0	109.9	105.7	100.2	113.3	135.3	132.2
Periodicals	100.0	108.3	120.5	149.1	159.4	186.7	204.4
Equipment	100.0	101.4	101.8	107.1	127.7	144.4	151.0
Computing	-	-	100.0	104.6	113.0	113.0	105.7
Furniture	100.0	104.9	109.9	122.1	140.1	151.9	161.2
Stationery + Paper	100.0	101.1	103.0	123.8	165.7	180.8	187.3
Printing Materials	100.0	101.8	106.3	130.4	161.1	164.5	163.4
Tools + Apparatus	100.0	103.2	105.8	113.0	131.0	145.4	154.7
Chemicals	100.0	101.1	103.0	114.2	149.0	163.9	170.8
Postage	100.0	112.3	120.8	120.8	120.8	121.2	144.7
Long Distance	100.0	102.1	106.0	108.4	109.6	114.2	120.6
Electricity	100.0	103.4	114.8	127.3	135.3	153.4	188.7
Gas + Oil	100.0	105.4	109.0	128.6	183.5	249.0	321.5
Telephone	100.0	102.1	106.0	108.4	109.6	114.2	120.6
Renovations	100.0	104.4	109.7	122.8	146.0	154.0	162.5
Transportation	100.0	103.9	105.9	111.2	123.5	138.6	151.5
Shelter	100.0	105.1	111.4	118.8	127.8	140.2	155.3
Food away from home	100.0	104.6	112.4	130.0	153.9	172.2	185.0
Insurance	100.0	128.6	155.3	190.1	215.2	270.8	328.2
Space Rental	100.0	105.1	111.4	118.8	127.8	140.2	155.3

TABLE 6

Annual Percentage Variation in the
Ontario University Non-Salary Price Index Components

Component	70-71	71-72	72-73	73-74	74-75	75-76	76-77
Books	-	9.9	(3.8)	(5.2)	13.0	19.5	(2.3)
Periodicals	-	8.3	11.3	23.7	6.9	17.1	9.5
Equipment	-	1.4	0.4	5.2	19.2	13.1	4.6
Computing	-	-	-	4.6	8.0	0.0	(6.4)
Furniture	-	4.8	4.7	11.1	14.7	8.4	6.1
Stationery + Paper	-	1.1	1.8	20.2	33.8	9.1	3.6
Printing Materials	-	1.8	4.3	22.7	23.6	2.1	(0.7)
Tools + Apparatus	-	3.1	2.4	6.8	16.0	11.0	6.4
Chemicals	-	1.1	1.8	10.9	30.5	10.0	4.2
Postage	-	12.3	7.6	0.0	0.0	0.2	19.3
Long Distance	-	2.1	3.8	2.3	1.1	4.2	5.6
Electricity	-	3.4	11.0	10.9	6.3	13.4	23.0
Gas + Oil	-	5.4	3.4	18.0	42.7	35.7	29.1
Telephone	-	2.1	3.8	2.3	1.1	4.2	5.6
Renovations	-	4.4	5.1	11.9	18.9	5.5	5.5
Transportation	-	3.9	1.8	4.9	11.1	12.1	9.2
Shelter	-	5.1	6.0	6.6	7.6	9.7	10.8
Food away from home	-	4.6	7.5	15.6	18.4	11.9	7.4
Insurance	-	28.6	20.8	22.4	13.2	25.8	21.2
Space Rental	-	5.1	6.0	6.6	7.6	9.7	10.8

3.2 Furniture and Equipment

Appropriate price indices for this expenditure component were difficult to find. There is no Canadian price index for scientific equipment, for example. To approximate office furniture, the Canadian Industry Selling Price Index (ISPI) for office furniture manufacturers was used.

There is no index available for computing equipment. For the university price index, the price trend for computing equipment is based on the Canadian monthly rental rates of the IBM 370 model 158 computer. Many Ontario universities use this model. Moreover, the competitiveness of the industry forces a fairly similar pattern of price trends for various computer systems. Model 158 was introduced in August 1972. IBM recently introduced a new computer line (3031, 3032, 3033) which is twice as powerful as the 370 line. In subsequent years, it will become necessary to reflect the replacement of the model 158 with the newer model 3032 or 3033 by linking the index and ensuring that price changes are not a result of quality changes. Further work needs to be done on this area to develop a more extensive index of computer price trends.

For the remaining furniture and equipment items, the United States Wholesale Price Index for machinery and equipment was used. While this is a very crude approximation, most equipment purchased by the universities is probably manufactured in the

United States. The U.S. data were converted to Canadian figures by adjusting for the Canadian-U.S. exchange rate. Since the indices available for furniture and equipment are quite broad approximations, further refinement would be desirable.

3.3 Operational Supplies & Expenses

This category is made up of a wide variety of diverse items, many of which carry too small a weight to be significant. The main task was to regroup expenditure items in this category in order to match them to appropriate price indices. Because many of the products purchased by universities involve transactions in primary rather than retail markets, considerable use is made of the Industry Selling Price Index (ISPI) series. For two items, the Consumer Price Index was used: postage and long distance telephone.

The ISPI fine paper index is used for printing and duplicating materials. The ISPI hardware, tool & cutlery manufacturers index is used as a proxy for tools and apparatus expenditures by the universities. Included in the broad category of tools and apparatus are hardware, small tools and laboratory instruments. The ISPI chemicals and chemical products industries index is used as an indicator for paint, laboratory chemicals, cleaning supplies, drugs and pharmaceuticals. Stationery and paper products including writing pads, paper, computer cards

and paper, and caretaker supplies are represented by the ISPI paper and allied products index. This is a broad index including such items as newsprint, fine paper, printing paper, toilet paper, writing pads, and loose-leaf binders.

3.4 Utilities

The utlities component includes fuel, electricity, water and telephone equipment rental. With respect to energy generally, it was readily apparent that existing indices grossly understated the actual rate of inflation experienced by universities. For natural gas and oil, an index was constructed based on rates paid by a representative sample of institutions. For electricity, Ontario Hydro provided us with rates for a large user based on load and consumption assumptions compatible with university usage. For telephone equipment rental we are using the CPI telephone index since no ISPI is available. There is no price index for water rates, but this item is only 7% of the total university expenditure on utilities.

3.5 Renovations and Alterations

Price increases in this small category (2% of university non-salary expenditure) can be approximated by the non-residential construction price index for materials.

3.6 Miscellaneous

Consumer Price Index components are used for the miscellaneous items. CPI transportation, made up of private, local and inter-city transportation, can be used to approximate a portion of travel and moving expenses. CPI shelter represents a rough guide to a second portion of travel and moving expenses, as well as space rental. CPI food away from home approximates a third portion of travel expenses as well as receptions, including convocations. CPI dwelling insurance is used as an indicator of insurance price trends.

4.0 CONCLUSION

The results of this study are summarized in Table 7 and Figures 1 and 2. For comparison, the Canadian Consumer Price Index, the generally cited index of inflation, is given on the table and charts. The 1977-78 figures are a forecast based on the data available since the beginning of the 1977-78 fiscal year (for most components, seven months) compared to the same period a year ago.

The cumulative effects of the higher university price index are clearly shown. For 1976-77, the Ontario university index was 13.7% higher than the Consumer Price Index. By the end of 1977-78 the Ontario university index is expected to be 14.5% higher than the Consumer Price Index.

TABLE 7

Ontario University Non-Salary Price Index

Fiscal Year ending April 30	OUNSPI 1970-71=100	CPI 1970-71=100	OUNSPI Annual % Change	CPI Annual % Change
1970-71	100.0	100.0		
1971-72	104.9	103.9	4.9	3.9
1972-73	109.2	109.2	4.1	5.1
1973-74	121.1	118.9	10.9	8.9
1974-75	143.9	132.5	18.8	11.4
1975-76	162.6	145.8	13.0	10.0
1976-77	177.1	155.7	8.9	6.8
1977-78 (forecast)	193.0	168.6	9.0	8.3

FIGURE 1

Comparison of price change trends for the Ontario University Non-Salary Price Index and the Canadian Consumer Price Index.

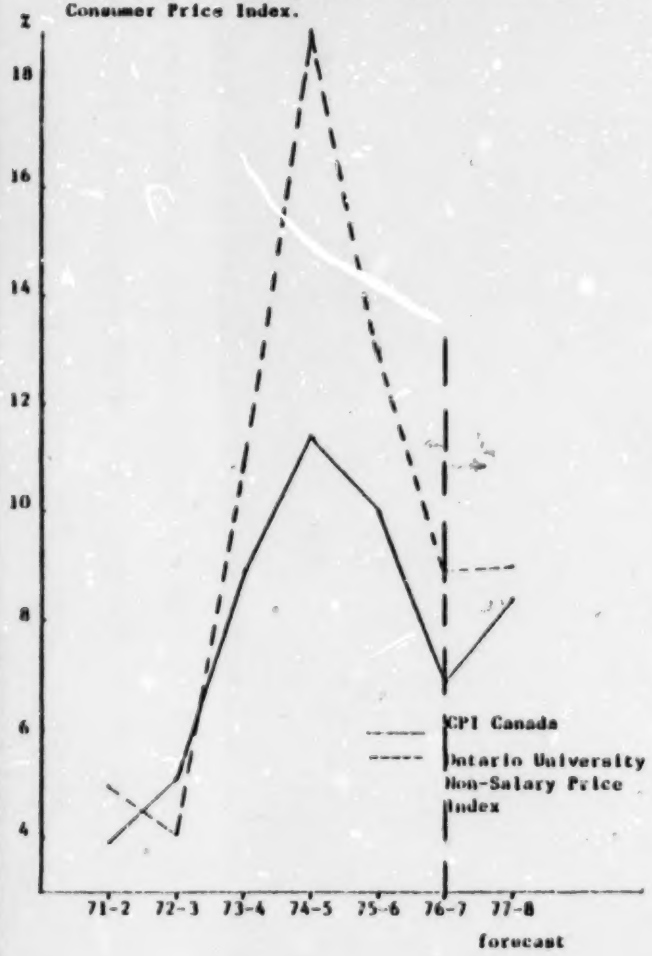
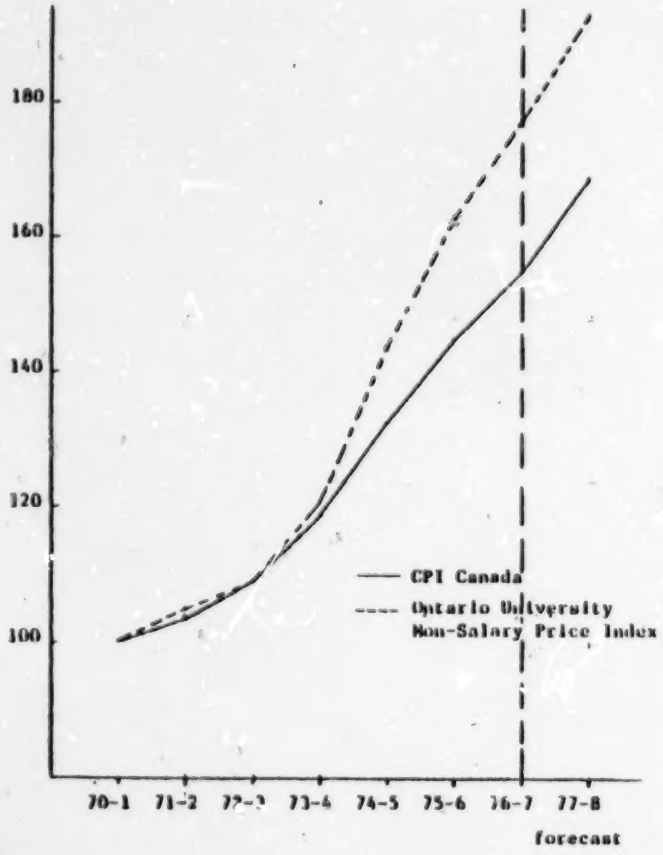


FIGURE 2

Comparison of Ontario University Non-Salary Price Index and the Canadian Consumer Price Index



One reason to anticipate variation between the CPI and UNSPI is the differences in the weighting schemes. For example, utilities (excluding telephone rental) are included in both indices but have a weight of 3.8% in the CPI compared to 17% in the university index. This means that the high rates of price increase for fuel oil, natural gas and electicity have had a much greater impact on the university index than on the CPI. A similar example is books, paper and paper products which have a very small weighting in the CPI compared to about 32% in the university index.

Most economic forecasters agree that inflation, as measured by the Consumer Price Index, will average between 6-8% for 1978 and 1979 calendar years. Increases for fuel oil and natural gas have been announced already by the federal government in order to reach the world price for oil in Canada. The announced increases of $1.00 a barrel for fuel oil every January and July are expected to continue through 1979. This means about a 16% increase in the price of fuel oil for 1978 and a 13% increase for 1979. Corresponding increases for natural gas also have been announced. Such high rates of increase will have a greater impact on the university price index than on the CPI due to the larger weighting for utilities in the university index. This suggests that the university price index will continue to have rates of increase higher than the Consumer Price Index for the next two years.